

Indicators for Sustainable USAID Program Graduation Examples of Thailand and Tunisia (1993-2004)

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Executive Summary

In 1993, USAID announced the decision to close a number of Missions, including those in Thailand and Tunisia. The decision was based partly on budget considerations, as well as on determinations that these countries could sustain development achievements. Eleven years later, it is clear that development in these countries has indeed been sustainable.

While USAID's Asia Near East Bureau (ANE) does not currently have the well-developed graduation process and regular indicators used by the Bureau for Europe and Eurasia (ENE), the Thailand and Tunisia examples can offer guidance as to a possible model for future graduation decisions by the ANE Bureau.

The Millennium Challenge Account (MCA) currently applies 16 indicators to measure candidate countries' adherence to its eligibility criteria. The MCA indicators measure host-country policies and offer a new prism through which to look at a country's potential graduation status. These new indicators complement the more traditional indicators used by USAID in the past to determine a country's readiness for graduation, e.g. per-capita income, infant mortality, and fertility.

As the following chart indicates, both Thailand and Tunisia rated well in the traditional indicators in 1993 and have improved upon these scores, demonstrating development sustainability as measured by per-capita income, infant mortality, and fertility (see bottom of chart).

While data on the 16 MCA indicators is sketchier, an analysis shows progress as well, especially in the "Investing in People" category. As measured by these indicators, Tunisia has generally performed slightly better than Thailand, but both countries have sustained or improved upon their scores for Health Expenditures, Number of Children Immunized, Education Expenditures, and Primary School Completion Rates.

As measured by the indicators in the "Ruling Justly" category, (Civil Liberties, Political Rights, Voice and Accountability, Government Effectiveness, Rule of Law and Control of Corruption) both countries were fair to good performers in the early and mid 1990s. Thailand has generally improved its scores in recent years – except for corruption. Tunisia's scores have mostly been maintained, with the notable exception of its score for political rights.

Unfortunately, it is difficult to find much of the necessary data under the MCA category of Economic Freedom. Data was not available for half of the six indicators, either because the data has only been collected recently (i.e. Days to Start a Business); is available only for subscribers (Credit Rating); or relies on country-submitted data (Fiscal Policy). However, both countries did

sustain good scores in Regulatory Policy and Inflation. Only on the Heritage Foundation index for Trade Policy did both countries have declining scores.

The Thailand and Tunisia case studies offer the benefit of hindsight. They show that USAID programs can be successfully graduated and that development can be sustainable. The 1993 decision to graduate these two programs could not have taken into account the 16 MCA indicators. However, a subsequent look back at these countries through this new prism indicates that such an analysis can work for future graduation decisions as well.

Thailand and Tunisia – Indicators for Sustainable Graduation				
	Thailand		Tunisia	
Indicator	At Graduation	Today	At Graduation	Today
<i>Ruling Justly</i>	<i>Fair to Good</i>	<i>Improvement</i>	<i>Fair to Good</i>	<i>Slight Decline</i>
Civil Liberties	Fair (1993)	Good (2004)	Fair (1993)	Fair (2004)
Political Rights	Fair (1993)	Good (2004)	Fair (1993)	Poor (2004)
Voice / Accountability	Good (1996)	Good (2002)	Poor (1996)	Fair (2002)
Government Effectiveness	Good (1996)	Good (2002)	Good (1996)	Good (2002)
Rule of Law	Good (1996)	Good (2002)	Good (1996)	Good (2002)
Control of Corruption	Good (1996)	Fair (2002)	Good (1996)	Fair (2002)
<i>Economic Freedom</i>		<i>Insufficient Data</i>		<i>Insufficient Data</i>
Country Credit Rating	n/a	n/a	n/a	n/a
Inflation	Fair, 3.4% (1993)	Good, 0.6% (2002)	Fair, 4.0% (1993)	Good, 2.7% (2002)
Fiscal Policy	n/a	n/a	n/a	n/a
Days to Start Business	n/a	Fair, 42 (2003)	n/a	Fair, 46 (2003)
Trade Policy	Fair (1995)	Poor (2004)	Poor (1995)	Poor (2004)
Regulatory Quality	Good (1996)	Good (2002)	Good (1996)	Good (2002)
<i>Investing in People</i>	<i>Fair</i>	<i>Improvement</i>	<i>Fair to Good</i>	<i>Improvement</i>
Health Expenditure	Fair, 3.7% (1997)	Fair, 3.7% (2001)	Good, 6.4% (1997)	Good, 6.4% (2001)
Children Immunized	Fair, 84% (1993)	Good, 95% (2002)	Good, 93% (1993)	Good, 95% (2002)
Education Expenditure	Poor, 4.1% (1993)	Fair, 5.5% (2000)	Fair, 6.4% (1993)	Good, 7.2% (2000)
Primary Completion	Good, 93% (1990)	Good, 91% (2000)	Fair, 75% (1990)	Good, 98% (2002)
<i>Traditional Indicators</i>	<i>Good</i>	<i>Improvement</i>	<i>Good</i>	<i>Improvement</i>
Per Capita GDP	\$2,440 (1993)	\$3,000 (2002)	\$1,966 (1993)	\$2,574 (2002)
Infant Mortality	29 per 1,000 (1995)	24 per 1,000 (2002)	29 per 1,000 (1995)	21 per 1,000 (2002)
Total Fertility Rate	2.1	1.8	3.2	2.1

- Chart Notes – Indicator Column contains 19 indicators in 4 categories. Ruling Justly, Economic Freedom, Investing in People are from the MCA. Traditional Indicators are those used informally in past graduation determinations.
- Graduation Column identifies available data for year closest to 1993 – the year Thailand and Tunisia “graduated.”
- Today Column identifies most recently available data.
- “Good,” “Fair,” “Poor,” and “Improvement” designations are judgments of this paper’s author.
- Numbers are specified for quantitative indicators (e.g. inflation rate), but not for qualitative indicators (e.g. Government Effectiveness). All specific numbers can be seen in subsequent analysis pages.

Background

1993 Graduation for Tunisia and Thailand - In 1993, in an effort to reform and restructure the Agency, the USAID Administrator announced the closing of 21 Missions. The closeouts fell into three categories: graduates, small country programs, and countries that were inconsistent or unreliable development partners. Seven of the 21 countries were officially designated as graduates: Argentina, Botswana, Chile, Costa Rica, Thailand, Tunisia, and Uruguay.

At the time, USAID activities in Thailand included programs to increase workforce productivity, reduce AIDS, and improve natural resource management. The five-year USAID program in Tunisia focused on development of an economic reform program, including privatization assistance; food aid; and housing guarantees. Programs were subsequently phased out over several years.

The 1993 decision was based partially on research from an exercise in “engagement–disengagement,” which determined that those seven countries could sustain development achievements. This exercise, begun in 1992 by PPC, attempted to formulate a flexible yet explicit disengagement policy. The approach argued for resource allocation decisions based on need and performance. Among the indicators used to determine need were measurements of a country’s per-capita income, infant mortality and fertility rates. However, official thresholds were not part of the public justification for the 1993 graduation decision.

ANE’s Focus on Sectoral Graduation – As mentioned above, the decision to terminate the Thailand and Tunisia programs was necessitated as much from budgetary as from policy considerations. The Asia Near East Bureau has usually emphasized sectoral graduation rather than country graduation, an approach based on the belief that countries develop at different rates across various sectors. In the late 1990s, for instance, the decision was made to graduate three sectors in two countries: Indonesia’s economic growth strategic objective; Indonesia’s population, health, and nutrition strategic objective; and Morocco’s PHN strategic objective.

Europe and Eurasia Bureau Model for Graduation - Only the Bureau for Europe and Eurasia has integrated analytical work and graduation decision-making. ENE has a well-developed process and appropriate indicators, but the countries it serves have, for the most part, higher per capita income and more developed infrastructure and social indicators than the average USAID presence country.

Moreover, there are special legislative frameworks for the ENE countries: the Support for East European Democracy Act (commonly known as the SEED Act) for central and eastern European countries and the Freedom Support Act for the new independent states. Although the legislation itself does not specify a time frame for concessional assistance, a period of 10 to 15 years seems to have emerged out of the legislative history and discussions involving the White House including the Office of Management and Budget), the State Department, and USAID.

The ENE Bureau, in consultation with State and OMB, has developed a systematic method to assess the progress of each country in its transition to a free-market-based democracy, to decide when to terminate assistance. The approach consists of regular meetings with representatives from the State Department’s Country Coordinator Office, the ENE Bureau (specifically the Office of Program Coordination and Strategy), OMB, and the Mission. The graduation date is set when participants agree that the programs and institutions reach a sufficient momentum and level of results to complete their transition without USAID.

Potential Model for the Future

Given the unique circumstances of countries in the ENE region, an ANE model for graduation would need to operate differently. A set of clearly defined and consistently applied measures of development would enable the Bureau to put candidates on the table for graduation. Whether these countries would be selected for graduation would depend on the importance of other foreign policy objectives in light of their assessed needs. However, the Bureau could make an important contribution to this essentially political decision by informing the decision-makers of the countries' abilities to sustain development without continued concessional assistance. A possible tool in this endeavor can be found in the millennium challenge indicators.

Millennium Challenge Indicators - The Millennium Challenge Account (MCA) currently applies 16 indicators to measure candidate countries' adherence to its eligibility criteria. The indicators are intended to assess the degree to which the political and economic conditions in a country serve to promote broad-based sustainable economic growth and thus provide a sound environment for the use of MCA funds. The indicators are not goals in themselves; rather they measure policies that are necessary conditions for a country to achieve broad-based sustainable economic growth. The indicators were selected by the MCC in 2003 based on their relationship to growth and poverty reduction, the number of countries they cover, their transparency and availability, and their relative soundness and objectivity. Where possible, the indicators rely on indices of performance developed by independent sources.

The MCC indicators offer an interesting prism through which to look at a country's status at the point of graduation. Unlike the more traditional indicators used by USAID in the past to determine a country's readiness for graduation, e.g. per-capita income, infant mortality, and fertility, the MCA indicators focus more on the host-country policy environment, an increasing focus of USAID activity.

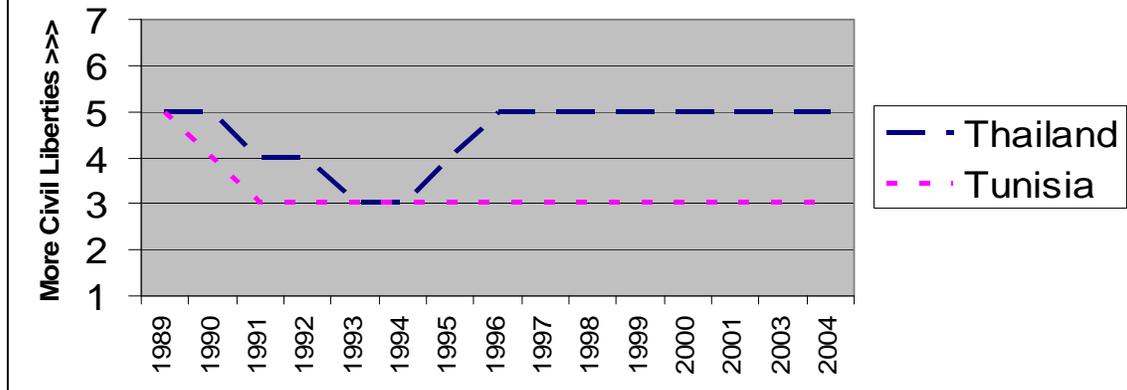
Thailand and Tunisia at time of Graduation as Measured by MCA Indicators - When Thailand and Tunisia were graduated from USAID assistance in 1993, the MCA was still a decade away. Many of the 16 MCA indicators were not yet in existence. Moreover, the MCA measures a potentially eligible country's performance relative to other countries in a similar income category – making it difficult to judge how Thailand and Tunisia would be measured if the MCA had existed 11 years ago. However, it is possible to take a snap shot of Thailand and Tunisia in the early to mid 1990s using some of the indicators currently used by the MCA.

The 16 MCA indicators fall into three broad categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. Under Ruling Justly, four of the six indicators come from the World Bank Institute Democracy and Governance Series, an index that began in 1996. Encouraging Economic Freedom has the most data gaps. There is more information available under the indicators that make up the Investing in People category. Where possible, this paper substitutes similar indicators if the exact MCA indicator information was unavailable.

Ruling Justly: 1) *Civil Liberties*: A panel of independent experts rates countries on: freedom of expression, association and organizational rights, rule of law and human rights, and personal autonomy and economic rights. Source: *Freedom House*.

A fifteen-year trend line shows a decline for both Thailand and Tunisia in the early 1990s, with Thailand's (but not Tunisia's) score improving in the mid-1990s.

Civil Liberties - Thailand and Tunisia (1989-2004)

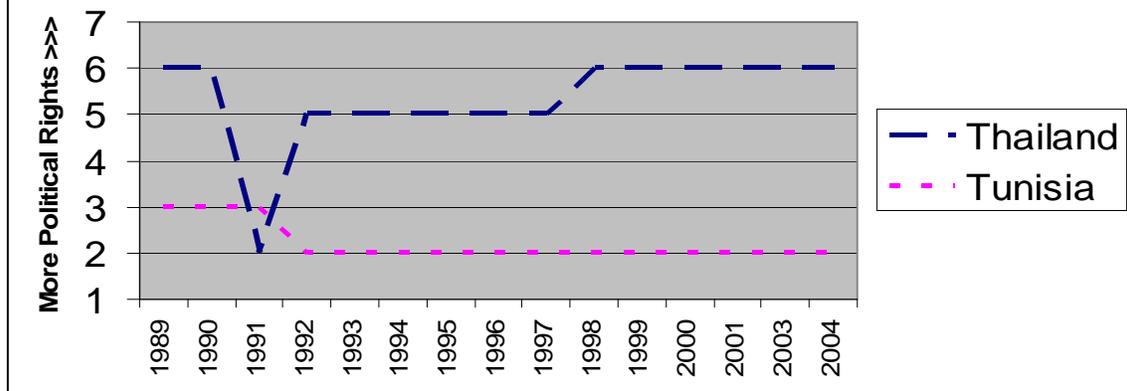


Source: Freedom House (* Original 1-7 Scale has been reversed to show good scores with higher values)

2) *Political Rights*: A panel of independent experts rates countries on: the prevalence of free and fair elections of officials with real power; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups. Source: *Freedom House*.

A fifteen-year trend line shows a significant decline for Thailand corresponding with the military coup in the early 1990s, followed by a restoration of political rights. Tunisia's score fell in the early 1990s and has not recovered.

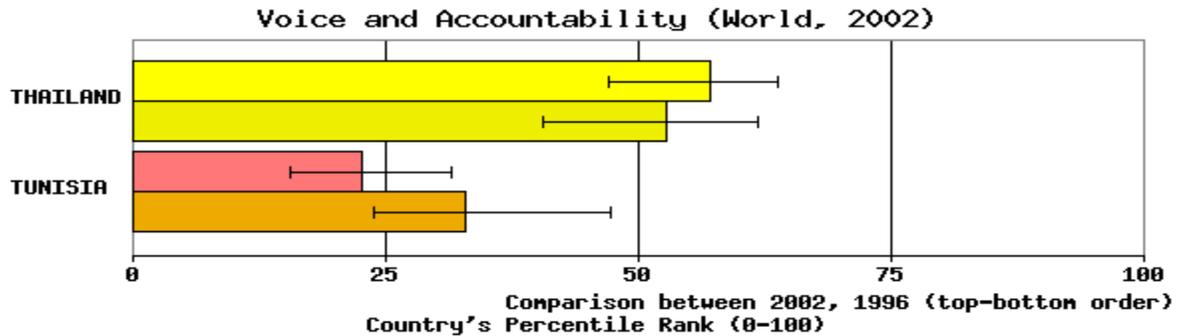
Political Rights - Thailand and Tunisia (1989-2004)



Source: Freedom House (* Original 1-7 Scale has been reversed to show good scores with higher values)

3) *Voice and Accountability*: An index of surveys that rates countries on: ability of institutions to protect civil liberties, the extent to which citizens of a country are able to participate in the selection of governments, and the independence of the media. Source: *World Bank Institute*.

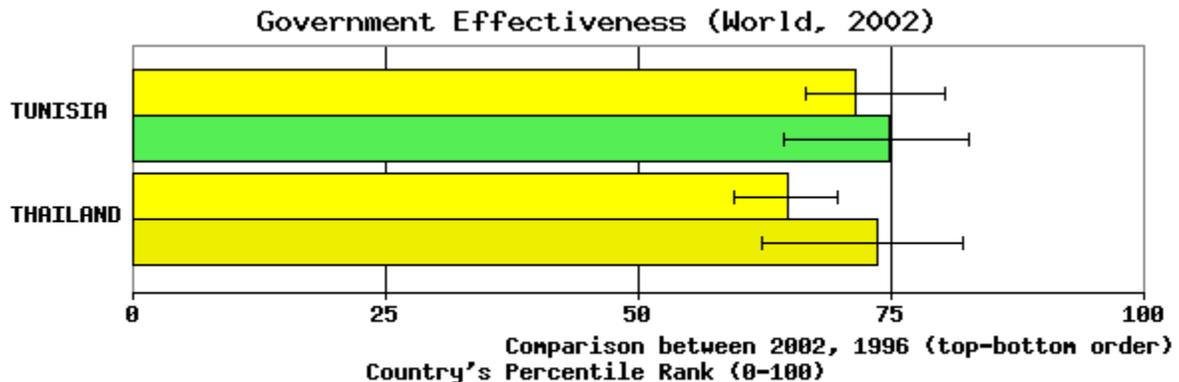
Thailand's scores have remained above the world average since 1996. Tunisia's score was poor in 1996, but has improved.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: *Governance Matters III: Governance Indicators for 1996-2002* (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

4) *Government Effectiveness*: An index of surveys that rates countries on: the quality of public service provision, civil services' competency and independence from political pressures, and the government's ability to plan and implement sound policies. Source: *World Bank Institute*.

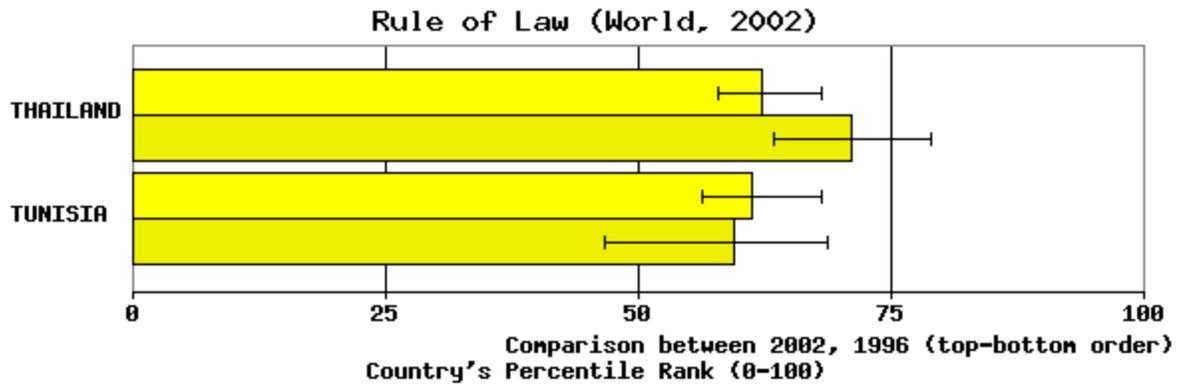
Both Thailand and Tunisia have maintained good scores on this index since 1996.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: *Governance Matters III: Governance Indicators for 1996-2002* (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

5) *Rule of Law*: An index of surveys that rates countries on: the extent to which the public has confidence in and abides by rules of society; incidence of violent and nonviolent crime; effectiveness and predictability of the judiciary; and the enforceability of contracts. Source: *World Bank Institute*.

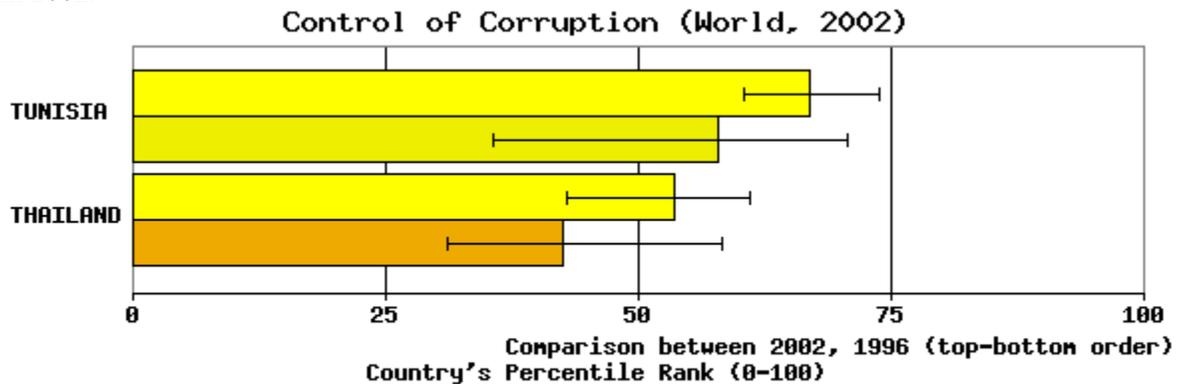
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6) *Control of Corruption*: An index of surveys that rates countries on: the frequency of additional payments to get things done,” the effects of corruption on the business environment, “grand corruption” in the political arena and the tendency of elites to engage in “state capture.” Source: *World Bank Institute*.

Both Thailand and Tunisia were above the 50th percentile in 1996, although Thailand fell below it in 2002.



Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: Governance Matters III: Governance Indicators for 1996-2002 (<http://www.worldbank.org/ubi/governance/pubs/goumatters3.html>)

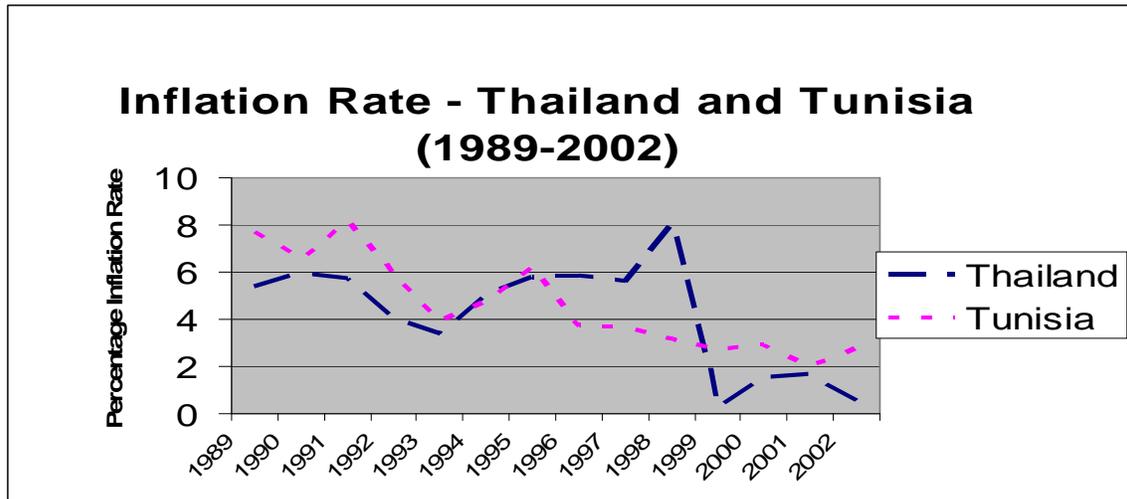
Encouraging Economic Freedom: 1) *Country Credit Rating*: A semi-annual survey of bankers’ and fund managers’ perceptions of a country’s risk of default. Source: *Institutional Investor Magazine*.

Data Unavailable – For subscribers only.

2) *Inflation*: The most recent 12 month change in consumer prices as reported in the IMF’s International Financial Statistics or in another public forum by the relevant national monetary authorities. Source: *Multiple*.

Both Thailand and Tunisia had inflation rates below 4% in 1993, after years of percentage decline. As of 2002 (the most current data available), the inflation rates for both countries have

declined even further – Tunisia with a steady decrease and Thailand with more unstable history due to the late 1990s financial crisis.



(Source: World Development Indicators)

3) *Fiscal Policy*: The overall budget deficit divided by GDP, averaged over a three-year period. The data for this measure is being provided directly by the recipient government and will be cross checked with other sources and made publicly available to try to ensure consistency across countries. Source: *National Governments*.

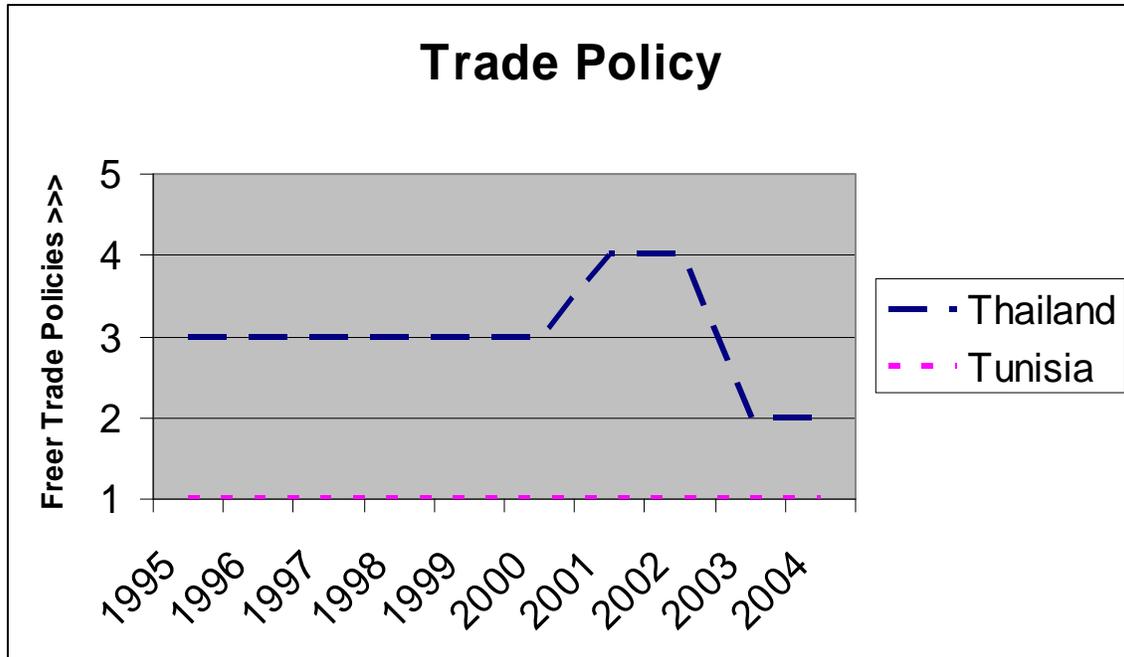
Data Unavailable

4) *Days to Start a Business*: The Private Sector Advisory Service of the World Bank Group works with local lawyers and other professionals to examine specific regulations that impact business investment. One of their studies measures how many days it takes to open a new business. Source: *World Bank*.

Data collected only since 2002

5) *Trade Policy*: A measure of a country’s openness to international trade based on average tariff rates and non-tariff barriers to trade. Source: *The Heritage Foundation’s Index of Economic Freedom*.

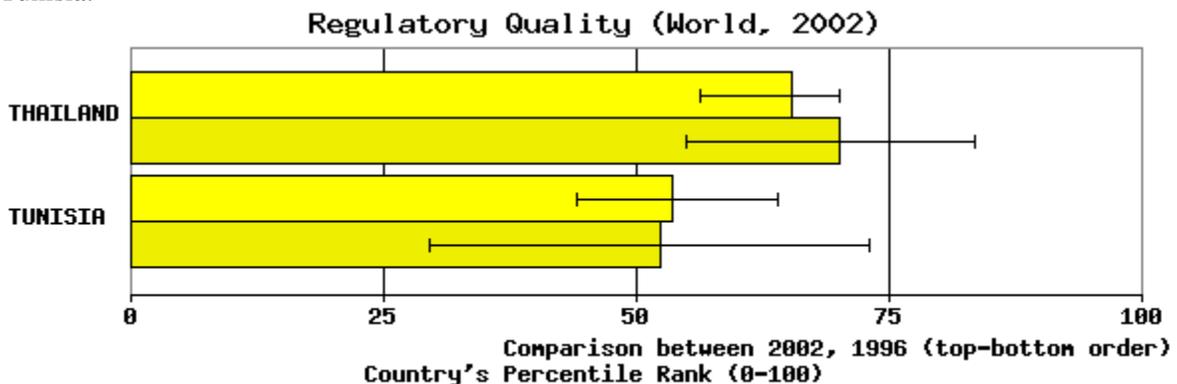
This series only began in 1995, when Thailand was rated with a middling trade policy and Tunisia a poor one. Since then, Thailand’s score has fluctuated, while Tunisia’s has remained at the lowest rating.



Source: Freedom House (* Original 1-5 Scale has been reversed to show good scores with higher values)

6) *Regulatory Quality Rating*: An index of surveys that rates countries on: the burden of regulations on business, price controls, the government’s role in the economy, foreign investment regulation and many other areas. Source: *World Bank Institute*.

As in several of the Ruling Justly indicators, this World Bank series only begins in 1996. It shows essential stability and relatively good scores in regulatory quality for both Thailand and Tunisia.



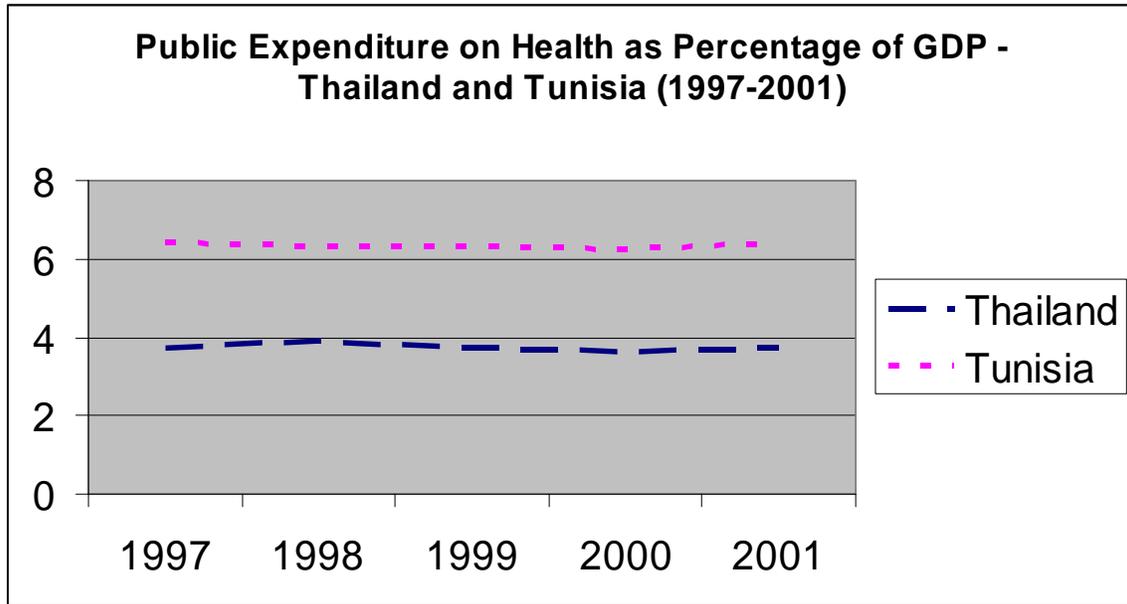
Source: D. Kaufmann, A. Kraay and M. Mastruzzi, 2003: *Governance Matters III: Governance Indicators for 1996-2002* (<http://www.worldbank.org/ubi/governance/pubs/govmatters3.html>)

Investing in People: 1) *Public Expenditure on Health*: Total expenditures by government at all levels on health divided by GDP. Source: *National Governments*.

Although the MCC collects this data from national governments, the World Health Organization also collects this data. The World Bank defines total health expenditure as the sum of public and private health expenditures as a ratio of total population. It covers the provision of health services

(preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation.

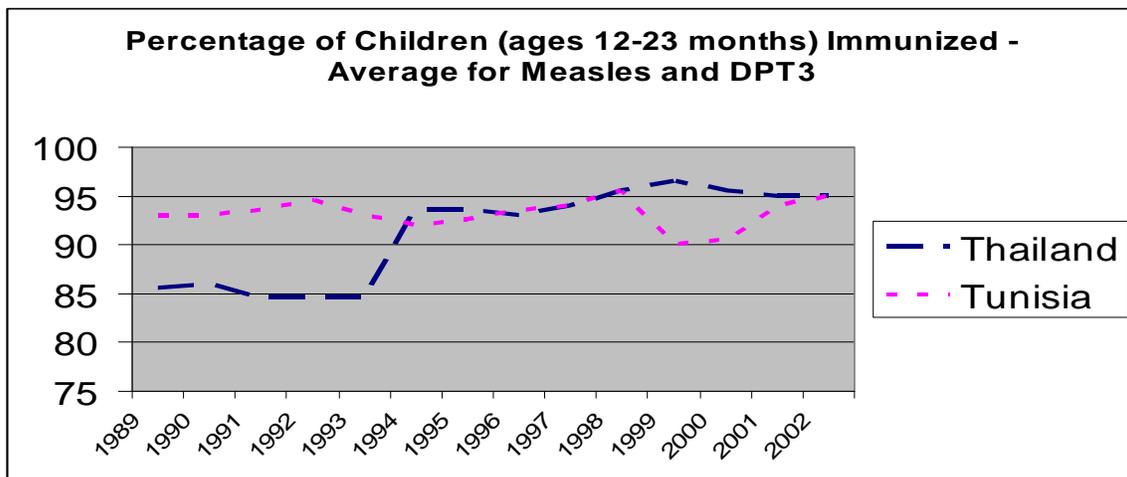
Since 1997 (the earliest data available), Thailand has consistently spent between 3 and 4 percent of GDP on health while Tunisia has consistently spend between 6 and 7 percent.



Source: World Development Indicators

2) *Immunization*: The average of DPT3 and measles immunization rates for the most recent year available. Source: *The World Health Organization WHO*.

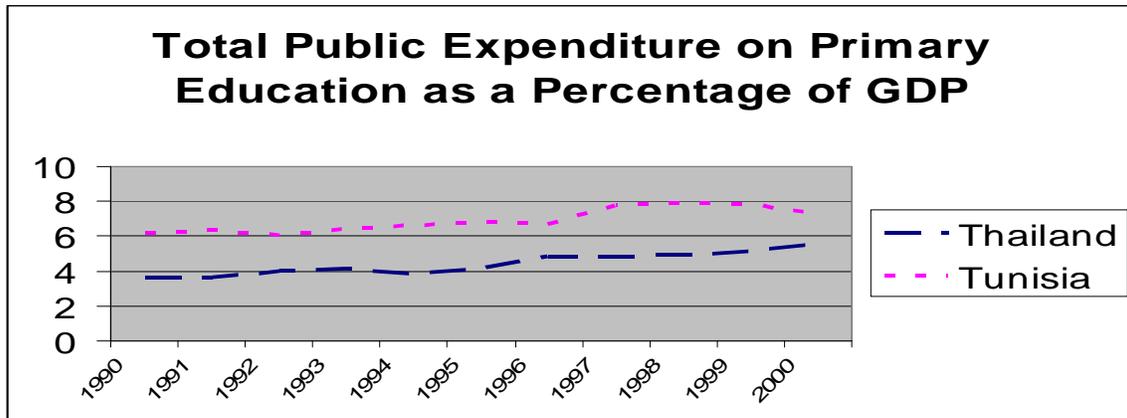
The World Development Indicators contain separate data for Measles and DPT3. When averaged, they indicate that Tunisia has consistently had an immunization rate above 90%. Thailand's rate began to rise significantly around 1994 (primarily an increase in measles vaccinations). Thailand now has an average rate around 95%.



Source: World Development Indicators

3) *Total Public Expenditure on Primary Education*: Total expenditures by government at all levels on primary education divided by GDP. Source: *National Governments*.

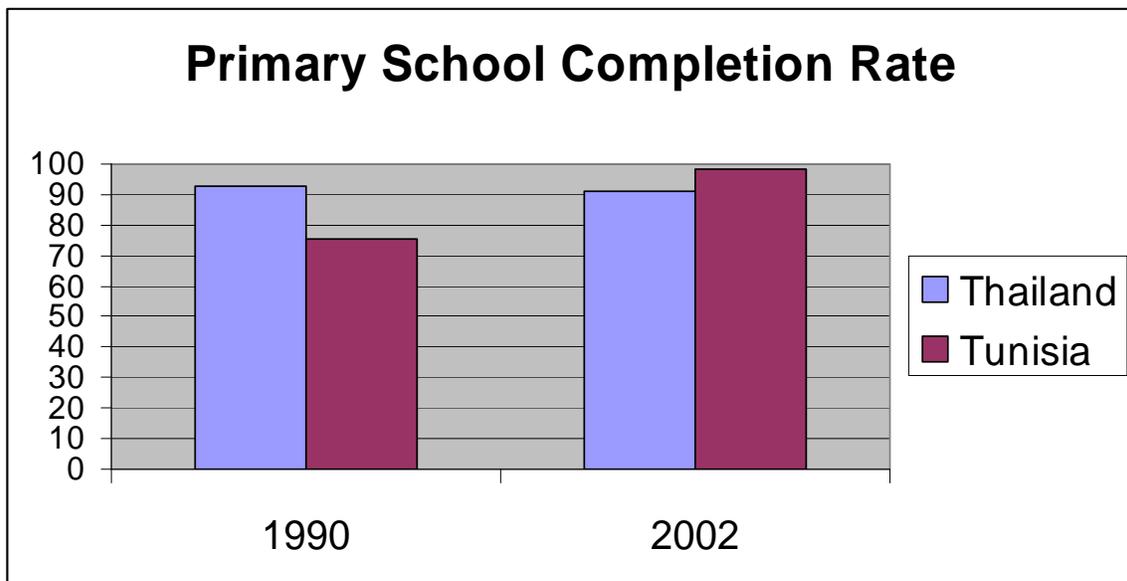
Definition: Total public expenditure on education expressed as a percentage of GNP. Total public expenditure on education includes both capital and current expenditure for all administrative levels of the country - that is, central or federal government, state governments, provincial or regional authorities, and local authorities, unless otherwise indicated in the notes on specific countries.



Source: UNESCO

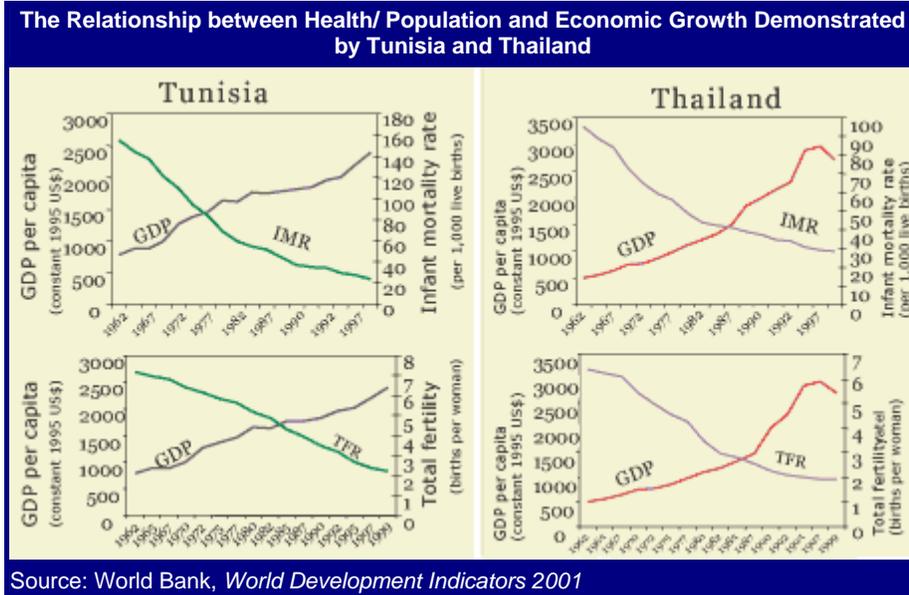
4) *Primary Completion Rate*: The number of students completing primary education divided by the population in the relevant age cohort. Source: *World Bank and UNESCO*.

Although the data for this indicator is sketchy, Tunisia has seen a significant increase in its primary completion ratio.



Source: World Development Indicators (Percentage of Relevant Age Group) *Note – 2002 bar for Thailand is based on 2000 data

Traditional Indicators: Gross National Product per Capita, the infant mortality rate, and fertility rate are three indicators more traditionally used for making graduation decisions. According to the following chart (primarily intended to demonstrate the relationships between these indicators), both Thailand and Tunisia were demonstrating solid progress in all three indicators in 1993 – progress which has been sustained after graduation.



Sources:

GRICS: Governance Research Indicator Country Snapshot, Comparison for one governance indicator across a number of countries

http://info.worldbank.org/governance/kkz/mc_indicator.asp

Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in FY 2004

http://www.mcc.gov/countries/selection/methodology_report.pdf

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Jul 1999, Hopps, Michael, Center for Development Information and Evaluation (CDIE)

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USAID Evaluation Special Study No. 81, USAID Graduation Recent Experience and

Outstanding Issues, by Frank D. Martin, John Eriksson, Stephanie McNulty

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